Testimony of James E. Rogers
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House Science Committee
Business Actions Reducing Greenhouse Gas Emissions
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Good Morning. My name is Jim Rogers, I am Chairman, CEO and President of Cinergy. Cinergy was formed ten years ago by the combination of PSI Energy in Indiana and Cincinnati Gas & Electric. As you know, Cinergy also recently announced a merger with Duke Energy based in Charlotte, North Carolina.

Let me tell you a bit about our company before I explore our interest in greenhouse gas emission policies.

Cinergy serves approximately 1.5 million customers in Ohio, northern Kentucky and much of Indiana. We operate nine coal-fired generating stations that burn almost 30 million tons of coal per year.

As a Midwest utility Cinergy has ample access to coal. And with rising natural gas prices, coal is the most economical choice for supplying our customers with electricity. Despite our generating choice, in 2003 Cinergy committed to reducing our greenhouse gas emissions to five percent below 2000 levels during the period of 2010 and 2012. To reach that goal we are spending $21 million to fund projects through the remainder of the decade. We plan on reaching the goal despite a growing demand for electricity in our region, and taking into account the electricity penalty we will realize when the bulk of our generating units are outfitted with pollution control equipment to meet new Environmental Protection Agency regulatory requirements.

All in all we expect that we will need to cut greenhouse gas emissions by a total of 30 million tons.

While electric rates in the Midwest are likely to increase as a result of pollution control expenditures to reduce sulfur dioxide, nitrogen oxide and mercury, no increases will be due to our carbon commitment. We made our decision to reduce GHG emissions despite the fact that there currently is no commercially viable method of capturing and sequestering carbon from coal fired power plants. However there are new technologies on the horizon and research on carbon capture and sequestration applications will and must continue to keep coal a viable and necessary fuel for the future.

In fact, Cinergy is completing a feasibility study on the construction of an Integrated Gasification Combined Cycle power plant (IGCC) -- the state of the art coal plant technology available to us today. It is relatively easier and less energy intensive to capture CO2 from an IRC's high pressure synthesis gas than from conventional pulverized coal flue gas. In addition, sulfur dioxide, nitrogen oxide and mercury emissions are substantially reduced with IGCC technology and because it is more efficient even without carbon capture components, it does reduce carbon emissions.

According to industry analysts' estimates, the cost of IGCC is 10 – 20% more then traditional pulverized coal. Those costs will come down, however, if the appropriate incentives are made available and we are able to deploy five or more facilities over the next decade. It is also a technology that is a necessary component of any international technology transfer program. Developing countries that today operate plants without even the simplest of pollution control equipment can with technologies such as IGCC begin reducing all emissions more efficiently and completely.

Let me turn to the subject at hand. Why has Cinergy taken on this commitment and why expend so much attention on greenhouse gas emissions?

I spend a good deal of my time, not just in running the company – but also in researching and participating in domestic and international economic and environmental conferences so that I can appropriate the wisdom from those venues back to our shareholders and all of our stakeholders. Over the past several years I have developed a better understanding of climate change and I see the debate in the

scientific world honing in on a few basic facts: that the world is warming and that human activities have contributed to the warming. What the impacts will be I don't think we yet fully understand.

Because of this, I believe people increasingly will believe that greenhouse gas emissions should be reduced and that actions should begin today to prepare for that eventuality.

But what if I and the multitude of scientists and industries agreeing with that premise are wrong? If we approach this issue appropriately, then we will have worked to create new environmentally friendly technologies, pursued methods of saving energy far more efficiently and work to lower our dependence on foreign oil. We will have advanced to a multitude of fuel sources and technological configurations that will help move our economy into a cleaner and more self reliant future. And I don't know anyone that can argue effectively against that outcome.

Let me share with you some of what I call signposts that I have observed over the past several years which helped guide me to the development of our position today. We published these signposts in our 2004 annual report because we chose not to ignore the issue of greenhouse gases but to address it in a positive manner.

Signpost #1
The states are taking action

Four states have an overall cap on GHG emissions and two have a cap on power plant CO2 emissions. Eight states regulate GHG emissions. And, eight states have filed suits against Cinergy and four other utilities to curb their GHG emissions, while others are involved in suits with EPA over the need to regulate carbon.

A coalition of nine northeast states has initiated the regional greenhouse gas initiative which would create a regional market based cap and trade program.

Governor **Schwarzenegger** of California an executive order identifying a goal to reduce emissions including:

- By the year 2010, to reduce California's GHG emissions to less than those produced in 2000.
- By 2020, to reduce GHG emissions below 1990 levels.
- By 2050, reduce overall emissions a full 80 percent below 1990 levels.

He noted that the state is going to accelerate the timetable to get more energy from renewable sources 20 percent by 2010 and a third by 2020.

These sources include solar, wind, geothermal, and biomass from agriculture and other waste.

The state's fleet of government vehicles, all 70,000 of them, will be replaced with hybrids.

Signpost #2

An increasing number of Members of Congress are expressing concern about global warming.

While in 1997 the US Senate voted to reject the Kyoto Protocol, that did not mean they were rejecting the issue. I think that it is important to remember that the ratified 1992 Agreement of the Parties has an objective of stabilizing atmospheric greenhouse gas concentrations "at a level that prevents dangerous anthropogenic interference with the climate system" has never been refuted.

Senators McCain and Lieberman have introduced and modified their climate reduction proposal and those voting favorably have increased even though there are still not enough votes to pass the Senate.

Multi-Emissions legislation which I have championed for years sadly can't move past the Senate Environmental and Public Works committee because the issue of climate remains unresolved. That hurts the utility industry and its customers because also unresolved are rules that regulate sulfur dioxide, nitrogen oxide and mercury as well – all which will undoubtedly cost ratepayers millions in unneeded expenditures because the roadmap for an eventual solution to those issues will be tied up in courts for years.

Signpost #3
Kyoto has been approved by 38 Industrial nations this year.

Europe wants to accelerate GHG mitigation and some countries, including Tony Blair with whom I met yesterday, are interested in exploring what lies beyond Kyoto's 2012 expiration.

I think that it is also important to consider that while industry in Europe is mandated to deal with emissions reductions, that issue could become increasingly confrontational in trade discussions as the lack of a U.S. policy could possibly be considered a trade subsidy.

Signpost #4

A growing number of shareholders are asking companies to quantify the risks associated with GHG emissions.

Increasingly investor groups are asking utilities and other companies to quantify their GHG emission risks and to determine what steps are being taken to manage those risks.

The assets of socially responsible mutual funds are growing faster then the mutual fund industry as a whole.

And, the California Public Employee Retirement System (CalPERS) announced that it will sign onto the Global Carbon Disclosure Project, an international effort to improve the transparency of business risks associated with climate change.

Signpost #5

CO2 and GHG emissions trading markets are developing in Europe and the US.

The EU initiated its emissions trading scheme this year and facilitates the trading of CO2 allowances among 12,000 EU industrial installations.

The Chicago Climate Exchange established in 2003, has grown from 13 to 85 members.

Signpost #6
Global Warming is becoming part of our everyday consciousness

The issue served as cover stories for Business Week and National Geographic in 2004.

And this past Saturday's New York Times included a front page story discussing world-wide technology advances in energy efficiency. The story highlighted countries that have outperformed the U.S., from Japan with its newly manufactured kilowatt saving refrigerators and air conditioners to Germany with its impressive new fuel efficient homes and to Singapore which is placing new restrictions on autos to encourage increased bus and rail usage.

Increasingly, U.S. businesses are stepping up to take action. Not just in the utility industry but if you look at the President's voluntary climate reduction program, numerous business have made commitments to reduce emissions. Even Exxon-Mobile is now advertising voluntary actions it is taking to reduce its impact on climate trapping emissions.

But what does all of this domestic and international activity mean for the U.S.? While other countries are incentivizng new technologies in a comprehensive fashion, we are arguing about what to do. And where will those other countries take those technologies? To China which according to the New York Times consumes 11.5 times the energy of Japan to produce the same industrial output.

Despite the fact that Japan is far from meeting its Kyoto target --- it is already moving from industry to home and automobile – in attempts to dramatically increase efficiency and alternative vehicle use. And who is dominating the world market on hybrid vehicle sales? The Japanese car manufacturers. Meanwhile Japan has nearly tripled its industrial output from 1973 to today while keeping its overall energy consumption roughly flat.

While the world is deploying leapfrogging technology in an effort to deal with climate change, the U.S. lags sorely behind; concerned that movement to address the climate issue might create some kind of economic instability.

So how do you and we in industry alter the climate paradigm?
I think that it will require a number of steps – smaller steps then embracing Kyoto that will set us on the right path.

First, again, there are aspects of climate science that are indisputable even thought significant additional scientific work remains to refine the unknowns.

- CO2 is at its highest concentrations in the past 400,000 years
- The earth is getting warmer
- The warming is caused by a combination of human and natural processes

Second, I think that we have all recognized that Kyoto was a 10,000 pound gorilla, and too much for the U.S. to tackle. As a result, I think that it is important to eliminate the linkage between any kind of carbon reduction policy and Kyoto.

While I believe that the best approach to climate is an economy wide approach – I think the path there may need to be more creative and perhaps even incremental in order to demonstrate the ability to control emissions in an economically viable way.

Whatever emission reduction approach is adopted, I believe that coupling it with legitimate methods of advancing technology is crucial. I know that this Committee focuses on Research and Development. I believe that taking a hard look at what programs are funded and what can be jumpstarted in order to bring them closer to commercial adaptation is important. Much of the discussion on R&D tends to focus on the R and not so much on the D --- development or what I think we need to see is Deployment. Getting these technologies into the marketplace earlier and more effectively is an issue that I believe is often overlooked.

And, I think that beyond traditional government programs, the development of technology funds to help offset the costs of meeting emission reduction targets can work, not only by spreading out the cost of those targets throughout the entire economy but by also helping the U.S. regain the lost momentum to lead the energy efficiency technology race. Ideas abound about how to fund these off budget – and they may not be practical right now – however beginning the discussion is important if optimal solutions to meeting a greenhouse gas reduction target are to be utilized.

Third, I also think it's important to greatly simplify the implementation of taking on emission reduction commitments. As a Utility company executive I am mystified each and every time the issue of meeting climate reduction programs or even the development of a voluntary registration of emissions arises, with it surfaces the host of issues that makes a solution all but impossible. How do you deal with past actions, additionality, every household and homeowner taking on a commitment? The Answer: Don't.
Let's not follow the complicated example of our friends across the "pond" that have developed hundreds of varying allocation rules for every industry or fuel type. Keep it simple. Make a forward looking commitment, meet it and if you go below it – allow those tons to be used to trade with others.

And finally as the Committee continues to examine greenhouse gas emissions I would urge you to be creative. This commitment in my own company has empowered our employees to creatively address how best to meet that commitment. The Acid Rain Program reforms to command and control regulations helped minimize the role of the government in business decisions and unleashed the power of the market by making reductions a good investment. This is the one of the economically efficient paths forward. To take another approach provides naysayers with the unwavering momentum that challenges the possibility of forward movement.

I believe that the country needs leadership in this area. I don't believe that I am being disloyal to the President whom I support, to Congress or to my shareholders when I say that the time is now to move positively toward reachable goals that will not only put us on

track to operate in a greenhouse constrained environment, but on a track that will also make this country the technological leader it once was and can be again.